

North Carolina Education Lottery Commission Meeting

Meeting Minutes

Tuesday, June 7, 2016

Commissioners in Attendance: Kim Griffin, Jr., Chairman
Keith Ballentine
Alice Underhill
Amy Ellis
Chris Shew
Jody Tyson
Doug Baker (via conference call)

Commissioners not in attendance: Courtney Crowder
David Kirby

Staff in Attendance: Alice Garland
Bill Jourdain
Quan Kirk

The North Carolina Education Lottery meeting was held on Tuesday, June 7, 2016, at 9:00 a.m. at the Wilkes County Sheriff's Office located at 381 Executive Drive in Wilkesboro, NC.

Chairman Griffin called the meeting to order and Commissioners stood for the pledge of allegiance. The Chairman reminded Commissioners that they operate under the State's code of ethics. He also informed commissioners that funds raised by the North Carolina Education Lottery (NCEL) should be used to supplement, not supplant, education dollars in North Carolina and that such expenditure is controlled by the North Carolina Legislature.

Chairman Griffin recognized several guests in the audience and introductions were made:

Lisa Hughes, Yadkin County Manager
David Moxley, Vice Chair, Yadkin County Board of Commissioners
Kevin Austin, Chair, Yadkin County Board of Commissioners
Susan Cornell, Financial Analyst, Iredell Statesville Schools
Daniel Baum, Lobbyist for Scientific Games

Chairman Griffin requested a roll call to ensure a quorum. Teri Riddle, Executive Assistant, called the roll. All Commissioners were present for the meeting except Commissioner Kirby and Commissioner Crowder. Commissioner Baker participated via conference call.

Chairman Griffin presented the minutes from the March 8, 2016 and May 10, 2016 Commission meetings. Hearing no suggested changes, Commissioner Tyson made a motion to approve the

minutes from the March and May meetings and Commissioner Ballentine seconded. The minutes were approved.

Finance and Audit Report

Mr. Bill Jourdain, Deputy Executive Director of Finance, Administration and Security, presented the FY17 budget proposal for the Commission's approval, with a few changes since the original presentation in May:

- Adjustment to salaries and fringe benefits of \$16,000
- Reallocation of \$14 million in net revenue to unclaimed prizes (House budget proposal)
- Potential 2% increase in advertising funds (Senate budget proposal)

Chairman Griffin expressed concerns about the distribution of funds for NCEL sponsorships of events across NC. He stated that NCEL sponsored events appear to be concentrated in the Raleigh and Charlotte regions. Commissioner Ballentine responded that similar to how advertising dollars are spent, the NCEL concentrate in areas or at events that will yield the biggest return on the investment for the NCEL. There was discussion about the decision making processes for advertising in different regions. The Chairman stated certain members of the General Assembly informed him that they believe the eastern part of the state supports the western part of the state. Frank Suarez, Deputy Executive Director of Brand Management and Communications explained that part of the decision making process for choosing sponsorship opportunities is looking for the best return on the investment. In fact, the NCEL considers 3:1 as the general ratio of return.

Chairman Griffin requested, as an agenda item for September for the Commission to review how the NCEL selects sponsorships across the state. Commissioner Baker stated that the Revenue Generating Committee is the appropriate Committee to review and discuss this subject matter. Commissioner Baker made a motion to refer the issue to the Revenue Generating Committee and Commissioner Shew seconded. The motion passed unanimously.

Commissioner Tyson made a motion to accept the proposed FY2017 budget for the NCEL and Commissioner Ellis seconded. The motion passed unanimously.

Mr. Jourdain presented the April 2016 financial update. In the statement of net position, April 2016 ended with total assets of \$192.1 million. This includes \$95.6 million in cash and \$62.7 million in annuity award investments. Accounts receivable totaled \$26.2 million. \$23.8 million represents net receipts from the gaming system to be collected via electronic funds transfer in May and \$2.3 million from multi-state prize funds owed to the NCEL from MUSL for NC prizes won in Mega Millions and Powerball.

Total liabilities of \$188.8 million included \$57 million in outstanding prize awards and vendor accounts payable, \$62.7 million in long term annuity prize awards payable and \$51 million due to the Education Lottery Fund.

Total operating revenue for the first ten (10) months of FY2016 totaled \$1.99 billion. Ticket sales for the first ten (10) months of FY2016 totaled \$1.98 billion which is a 21% increase over the same time last year. The record setting Powerball jackpot resulted in a 65% increase in product sales over last year.

Net revenue earned for the Education Lottery Fund for the ten (10) months of FY2016 totaled \$515.6 million or 25.9% of total revenue. That is an increase of 20.47% over the same time last year. Total net revenue through April is 17.66% ahead of our FY2016 budget target.

During the month of April, the NCEL initiated a record quarterly transfer of \$200.8 million to the Education Lottery Fund. This transfer represented net earnings of \$196.4 million and 50% of unclaimed prizes (\$4.4 million) for the third quarter of FY2016. This brings the total net proceeds transferred to the State of North Carolina, since inception, to \$4.4 billion.

Mr. Jourdain provided the commission with an update on NCEL properties. He reported that construction has begun on the new NCEL headquarters. The projected move date from the current location to the new location on Capital Blvd. is expected to be in early December 2016. The Greenville Regional Office recommendation, that the current location remain the same with no increase in rent, will be reviewed by the Council of State. Proposals are currently being received for the Wilmington facility. A recommendation will be made to the Council of State in the near future. Lease extensions have been negotiated for Greenville, Wilmington and Raleigh locations until final decisions or moves to new locations take place.

Stacy Askew, Director of Administration, presented information about the Interactive Voice Response (IVR) contract for the player hotline. She outlined information about the request for proposal (RFP) and detailed information on how the NCEL staff chose an apparent successful vendor, based on a scoring model. The only company responded to the RFP was Symago, LLC, the NCEL's current vendor for the player hotline. After various questions regarding the current IVR Contract, the procurement process and the apparent successful vendor were answered by Ms. Quan Kirk, General Counsel, Commissioner Underhill made a motion to approve the contract and Commissioner Shew seconded. The motion passed unanimously.

Mike Suggs, Director of Internal Audit, presented the Internal Audit report.

Completed Audits include:

- MIS Continuous Audit resulted in no findings
- Wilmington Claims Office Audit resulted in two minor findings
- Prize payout concern was routed through the Office of the State Auditor from a player
 - Working with State Auditor
 - Audit of instant ticket process to ensure efficiency
- Pre-employment and credit check

Current Audits

- Product Development
- End of Games procedure
- Communications and Customer Service

Mr. Suggs reported that a risk assessment of the upcoming NCEL headquarters relocation is currently ongoing. He also reported that the DHHS audit is nearing completion and findings will be sent to Commissioners.

Operations and Personnel Report

Committee Chairman Jody Tyson reported that the Operations and Personnel Committee would provide the full Commission with an update at the September 13, 2016 meeting on their review of the NCEL policy allowing retailers to play lottery in North Carolina.

Marbet Cuthbert, Director of Human Resources, provided an update on the Department of Labor's recommendation to increase the salary threshold of what constitutes an employee as being exempt from the State Personnel Act. Full implementation is expected to be in early December. Communicating the changes to affected employees will begin in late summer.

Executive Director's Report

Mr. Frank Suarez, Jr., Deputy Executive Director of Brand Management and Communications presented the Brand Management quarterly report:

- 10th Anniversary campaign featured Proud Moments commercial
- Proud Moments promotion ended in May
- There were 1,129 Proud Moment entries received and 10 winners will win \$20,000
- New 10th Anniversary scratch-off tickets yielded \$42 million in sales
- Lucky for Life promotion raised sales by thirty-nine percent (39%) during the promotional period
- The Carolina Black ticket was re-introduced in May
- Instant ticket product produced over \$142 million in sales in May – 21% over FY2016
- June will feature the Wheel of Fortune ticket with a chance to appear on a special lottery only gameshow (non-televised)
- Lucke-Zone Players Club now has over 700,000 members and nearly 100,000 downloads of the NCEL app to date

Mr. Suarez presented the upcoming FY17 Brand Management Plan featuring upcoming tickets, promotions and branding that will launch in the next fiscal year. He also presented findings from a recent market research study conducted through IGT. Participants included current players, past players and lapsed players.

Mr. Suarez also presented a summary of results from the beneficiary research conducted recently. Jaime Fuquay, Director of Government Affairs, then outlined how the North Carolina Legislature distributes Lottery proceeds. She discussed the possibility of NCEL staff presenting results of the market research to the Joint Legislative Oversight Committee on the State Lottery. Commissioners requested Ms. Fuquay to provide them with a survey about next steps on sharing the results of the market research with Legislators and the public.

Ms. Fuquay provided a legislative update for Commissioners. She reported that the Governor, House and Senate have all presented their respective budget proposals. The Senate spending plan includes a 1% increase in lottery advertising spending and no language directing the lottery to transfer 100% of unclaimed prize money. The House budget does not include the advertising increase, but does include the mandate for the NCEL to return 100% unclaimed prize money to the State. The Senate budget allocated the additional \$50,000,000 in revenue from the advertising increase to a new category of school "transportation."

Mr. Tony Chung, Deputy Executive Director of MIS and Gaming Systems provided an update on the gaming system conversion that will take place on March 26, 2017.

Ms. Alice Garland presented the contracts over \$90,000 and the HUB report.

Open Discussion

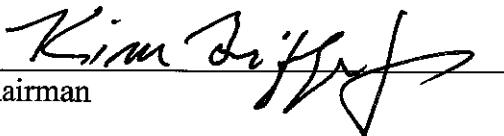
Commissioner Ballentine asked about the Chairman's vision for the Revenue Generating Committee and what type of language should be included in the committee charter.

Commissioners discussed games and proposed games that may be presented to the NC Legislature.

Commissioner Baker made a motion that the newly formed Revenue Generating Committee's charter include language that states committee members will focus their efforts on internal reviews, discussions and assessments without any responsibility or obligation to external entities. The motion passed unanimously.

Commissioner Baker made a motion that all future NCEL Commission meetings take place at NCEL headquarters for at least one year, with the option to revisit the meeting locations at that time. Commissioner Ballentine seconded. Chairman Griffin noted that G.S. 18-C states the Commission Chairman decides where the meetings will take place. Ms. Kirk stated that meeting locations are procedural. Chairman Griffin asked that Ms. Kirk review the Commission charter for clarification. The motion passed with two commissioners opposing, Chairman Griffin and Commissioner Shew.

Being no further business, the meeting was adjourned.


Chairman

9-13-16
Date